

## FDD-PST

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**From:** Don\_Richardson@reynolds.k12.or.us  
**Sent:** Monday, April 10, 2000 8:05 PM  
**To:** fdd-pst@fns.usda.gov  
**Cc:** Beverly.HASSELL@ODE-EX1.ODE.STATE.OR.US  
**Subject:** Response for Food Distribution 2000 Comments

Ladies and Gentlemen:

Great news you have been working on the Commodity Ordering System etc.  
Looks great!  
Very hard and detailed work I can tell. May I offer my two cents.

May I suggest a combination of processes for Crediting the SFA for USDA Commodity products utilized in processed foods. I have taken excerpts from the final report and made some modifications and suggestions. Also, attached is a file in MS Excel which illustrates how this could work. I utilize a similar form when deciding on commodity processing for our district.

Any further questions please contact me.

Sincerely,

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CORE Team Final Report July 14, 1999 20  
3.2.9 The Credit Process  
When the commodity product arrives at an AM, it has a bill of lading or delivery order (DO). This DO includes a list of every district entitled to a portion of the product, and each district's share.  
For the purpose of this discussion, we will say this is a truck containing 30,000 pounds of chicken whose value is \$.75 per pound or \$22,500 (the amount paid by USDA to buy the chicken). Furthermore, XYZ District is entitled to half of the truck or 15,000 pounds/\$11,250. For the purpose of this discussion that is the "value" or "credit" to be given to the SFA.

Also, the central computer notifies XYZ District that the AM has received half a truck of chicken on the district's behalf. XYZ District buys whatever quantity of chicken nuggets it has determined to use for the school year from the distributor.

Rebates are issued monthly by the AM to the SFA based upon monthly purchases up to the amount of raw ingredients provided and consumed. Rebates for every case by .75/# X # Lbs Raw product used per case of finished. Credits are made to SFA account based upon dollar value credit to be used per end product.

OR the credits are based upon fair market value instead of the actual price paid by USDA. This would give the SFA the best value.

The AM maintains a running balance of credits received and issued. Monthly credits/rebates are issued by the AM to the SFA based upon month purchases.

See attached Excel Spreadsheet for details. This would work well for single ingredient or multiple ingredient products like pizza and would credit the SFA the full Dollar amount of the commodity used. The credits/rebates would come directly to the SFA from the MA based upon previous month's purchases.

There are a couple of pluses for this approach. One benefit is its simplicity for financial accounting. AMs and SFAs can easily track their accounts and whether the commodity value has been received by a district up to its PAL. Pricing is simplified as the credit/rebate is based upon actual commodities diverted OR fair market value of Commodities.

Credit is based upon value diverted. USDA Purchase price. The SFA would need to be aware of the amount of product diverted and the return yield on the commodities sent. Making sure not to send more than they would purchase.

Since, The distributor charges a handling fee to the district for receiving and delivering a case of commodity product. For larger districts or coops, the product could still be delivered directly from the AM to the desired location.

This would be a valuable option for the larger districts or coops since this would eliminate a middle distribution step. Unless, routing it through a distributor would help in the warehousing of large quantities of products.

\*\*\*\*I favor the Credit System generated from the AM based upon purchases. For the SFA to chase our tail with rebate documentation seems redundant.

The best system would be for larger districts to have the credit dead netted on the invoice from the AM. Thus reducing paperwork on both ends. This would work if direct shipped product to the SFA.

\*\*\*The above is a modification of 3.2.13 Rebate Process - Method 2 but also incorporates the advantages of a credit system.

### 3.2.13 Rebate Process - Method 2

This is the original rebate process for which the CORE Team received feedback in April. When a truck of commodities arrives at an AM, the AM rebates the commodity file value of the item, on a per case basis of end product, to USDA. In this approach, school districts order and distributors deliver products seamlessly. There is no difference in product or price through the system.

The below Sounds nice but adding an additional loop to jump through. Since the product is being diverted by USDA, (they already know who should get credit and convey that info to the AM, then the AM could issue the credit based upon purchases. Dead netted on the invoice.

However, on a periodic basis, the district submits proof of purchase to USDA who issues rebates for all the cases for which there is a commodity value on the books. USDA issues these rebates electronically on a regular basis. The pluses of this process are that it simplifies purchasing for the district and the distributor. It is truly seamless on the procurement end. Also, it allows issuance of rebates as soon as USDA and the AM have completed their transaction and because of substitutability, reimbursement could be retroactive for product already sold and paid for. Schools should have a much better opportunity to meet their PAL with improved tracking and accountability.

See Above\*\*\*

The down sides are that it creates additional data entry for school districts. Also, it means districts don't get the value of the commodity until they submit the rebate request and the AM issues the check. For some districts this may create a cash flow problem as they are paying full price for everything. Lastly, there is a concern about reconciliation when districts do not submit rebate claims in a timely fashion. In addition, small processors might need to be given a 90 day payment period for making payment to USDA for the raw product in order to ease their cash flow. While this approach has raised considerable controversy, the team felt that there are also benefits, and asked the SOC to include it in their evaluation and selection process.

Proposal for Commodity Processing Credit System

Reynolds School District

Description	Unit Size	Units Sent	Unit Value	Value Sent	Finished Yield in Cans	Credit Value for Finished Cans Due	Total Cans Made with Commodity Product	Sept Purchase Eligible for Credit	Sept Credit Rebate Due to SFA	Oct Purchase Eligible for Credit	Oct Credit Rebate Due to SFA	Nov Purchase Eligible for Credit	Nov Credit Rebate Due to SFA	Dec/Jan / Etc	Total Credits Received	Credit Rebate Available for Use	Remaining Cans Eligible for Credit
FRUIT POCKETS	20 #	44	18.25	803.00	4.43	4,119.639	194,920	100	411.9639	94.92	391.04	0.00	0.00	0.00	803.00	0.00	0.00
PEACHES, USDA	20 #	30	17.76	532.80	4.5068	3,940.712	135,204	100	394.0712	35.204	138.73	0.00	0.00	0.00	532.80	0.00	0.00
APRICOTS, USDA																	
PIZZA																	
FLOUR, USDA	50# Sack	1000	9.75	9750.00	7.95	1,226.415	7950,000	500	613.2075	1500	1,839.62	5,000.00	6,132.08	6,132.08	2452.83	7297.17	950.00
SAUCE, USDA	5/10	500	16.50	8250.00	8.34	1,978.417	4170,000	500	989.2086	1500	2,967.63	2,170.00	4,293.17	4,293.17	3956.83	4293.17	0.00
CHEESE, USDA	40# Block	200	70.00	14000.00	11.6	6,034.483	2320,000	500	3017.2414	1500	9,051.72	320.00	1,931.03	1,931.03	12068.97	1931.03	0.00
PEANUT BUTTER, SANDWICHES																	
PEANUT BUTTER, USDA	6#10	100	23.95	2395.00	7.95	3,012.579	795,000	200	602.5157	500	1,506.29		0.00	0.00	2108.81	286.19	95.00
									6028.21		15895.03		12356.28		21923.24	13807.56	1045.00